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SUBJECT: 2008 FUNDS FOR IRAQ - THE GROUND TRUTH

¶1. (C) SUMMARY: Less than a year underway, the surge has produced major security, diplomatic and economic results; however, those gains will be in jeopardy should the current House and Senate versions of the fiscal year 2008 State, Foreign Operations and related appropriations bills pass in current form. As proposed, these bills lack critical funds for continued US diplomatic and economic support of the 2007 surge, further endangering a number of key US assistance programs. END SUMMARY.

The New Way Forward: Not Just Security

¶2. (C) Launched in the first quarter of 2007, the New Way Forward is a joint security, economic and diplomatic endeavor, with the security initiative leading the way. An additional five US military brigades arrived in-country and launched various kinetic activities throughout Iraq in a last attempt to reduce the influence of Al-Qaeda and other malignant actors.

¶3. (C) At the same time, the State Department, as well as other interagency partners, including the Department of Defense, USAID and others, ramped up staffing to fill positions at 10 new embedded Provincial Reconstruction Teams (ePRTs) as part of the diplomatic and economic surge. Since then we have added an additional four ePRTs as the United States, role increasingly shifts from bearing the principal burden for Iraqi reconstruction, to providing targeted support in key areas, such as job creation programs and capacity development programs that enhance political and governance capabilities of the GOI.

¶4. (C) With recognizable security gains, it is imperative for the diplomatic and economic surge to continue as planned, even as troop levels are brought down. The FY 2008 Base and Global War on Terrorism (GWOT) Supplemental funding was carefully designed to do just that, while working in coordination with and building upon established programs.

Key Programs at Risk

¶5. (C) \$155 million of the almost \$1 billion FY 2008 GWOT Supplemental request would support the Community Stabilization Program (CSP); a program that offers employment opportunities, vocational training, youth programs and micro-grants to young Iraqi males as an alternative to participation in the insurgency, sectarian violence and crime. CSP is expanding rapidly to leverage and compliment the security surge; growing now from ten of Iraq's most violent cities to nine new cities. This program has generated over 70,000 jobs with a target of 220,000 jobs by September 2008. Given the current level of resources and burn rate, CSP does not have the ability to sustain levels of employment in

excess of 100,000 or reach the 220,000 peak levels of employment without FY08 funds. If no new funds are provided, an extremely rapid demobilization and closure of CSP in the 4th quarter of FY 2008 would ensue, un-employing a key, target population.

¶16. (C) Elimination of fiscal year 2008 funding would also limit the activities of the PRTs that benefit from the Quick Response Fund (QRF). This program permits PRTs access to funds for micro purchases and direct procurement to develop civil society and promote effective delivery of local government services. For example, \$7 million in QRF funds have supported independent newspapers, essential bank services, irrigation projects and established local chambers of commerce among other civil society programs and projects. At the current expenditure rate, the QRF funding will likely be depleted by June 08.

¶17. (C) We requested \$100M for the Provincial Reconstruction Development Committees (PRDCs); a program that provides flexible funding for smaller-scale, provincial civil works and other projects. PRDCs also provide a mechanism for local and provincial participation and management of assistance funds and create a vital link between provincial councils and PRTs. The program faced challenges that we are addressing, including slower than desirable FY ,07 Supplemental fund expenditures due in part to the Iraqi consultative process, and in part to contracting bottlenecks. For example, USACE/GRD is adding personnel in each of their districts, and expanding participation on technical evaluation boards to expedite expenditures. The PRDC program is broadening to include a community transition approach and offering alternative contracting methods that will also expedite delivery of services. The PRDC funds are being leveraged: our

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PRTs are reporting that the experience in planning and programming projects, a central goal of PRDC, has allowed provincial governments to program GoI budgetary resources and contributed to the better-than-expected budget execution rates.

Other Programs Facing Shortfalls

¶18. (C) Elimination of the \$400 million FY 2008 Base would cut out a wedge of core programs in the economic growth sector. At least three USAID programs depend upon that funding for continuation of activities) the Economic Governance Program (EG II), Local Governance Program (LGP) and a micro enterprise program. Furthermore, INMA, USAID,s agribusiness program is at risk should there beno 2008 funding.

¶19. (C) Other assistance funds in the GWOT Supplemental request, totaling \$212 million, will be directed towards democracy and governance programs that support moderate, non-sectarian entities, a critical step in national reconciliation. This funding will also address policy and regulatory reforms, removing barriers to business formation and economic development, including support for the WTO accession, subsidy reform, creation of a social safety net and the passage of other critical legislation.

¶110. (C) Programs intended to address the plight of refugees and displaced persons will go unfunded without new resources in FY 2008. The accommodation of refugees and internally displaced persons is essential to Iraq,s efforts to promote national reconciliation, another key goal of the US Mission, our Coalition partners and the international community at*large.

¶111. (C) An Operations and Maintenance (O&M) Facility was also included in our ,08 funding requests. This money would be used to maintain and operate critical infrastructure projects built with US taxpayer dollars while concurrently building

Iraqi capacity to manage O&M. The Embassy is also seeking additional funding as part of the 2008 Supplemental amendment request for the Iraqi Enterprise Fund, a significant effort to revive the private sector.

Additional Fallouts from No FY ,08 Funding

¶12. (C) In the absence of a firm commitment for future funding, implementers issue end of assignment, letters to their employees. The effect of this pending termination is grave. First, qualified, experienced employees lose their jobs. Should funding be received or restored, many of the previously employed implementer staff will likely not be re-employed; rather new employees will have to be hired. The time and expense involved in recruiting new employees, as well as the lack of continuity in staff, seriously disrupts the overall USG efforts. Finally, terminating programs early due to insufficient funding or in the current scenario, no funding at all, sends a loud message to our GOI counterparts: the USG is not committed to the work.

Accelerated Expenditures of Previously Appropriated Funds

¶13. (C) Embassy Baghdad acknowledges and appreciates the concerns of the Office of Management and Budget and Congressional appropriators regarding the slow expenditure of previously appropriated funds. However, expenditures are now accelerating given an improved security situation, a continued shift from large-scale reconstruction projects to government capacity development programs and other democracy programs, as well as increasing support and cooperation from the Iraqi political institutions.

¶14. (C) We are redoubling our efforts to ensure that our disbursement rate catches up with the recent increases in our obligation and sub-obligation rates. We are reviewing the number and distribution of contracting and engineering experts who assist our PRTs in preparing contracting packages. We are working with the Gulf Region Division (GRD) of the Army Corps of Engineers to see whether "template" projects can be made available with common specifications for standard types of projects (small school construction or well-drilling, for example). GRD is identifying ways to accelerate its processes. Our objective will be to make the path from project identification to disbursement as straight and short as possible. However, we will not sacrifice Iraqi input and capacity development for the sake of spending money

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faster. "Elbowing aside Iraqis" would speed our rate of expenditure, but ultimately would be counterproductive. Nor will we artificially favor large projects at the expense of small ones simply because they reduce the number of contracts we administer. Our bias at this point properly should be towards smaller, community-based, transitional projects rather than large infrastructure construction.

¶15. (C) We have scrubbed the Iraq Relief & Reconstruction Fund (IRRF) for additional monies. Virtually all of the IRRF major reconstruction funds are obligated on remaining construction contracts that will complete over the course of the next year. We estimate that approximately \$50 million may be available. Should that in fact be the case, those monies will be dedicated to pressing economic and political initiatives, but is certainly not a substitution for funds requested for FY 08.

Comment

¶16. (C) We recognize that there is still much to do under the

New Way Forward. It is without question that Iraqi political leaders have the responsibility to resolve many of the major lingering issues. We are seeing evidence that the political will is there to address these issues. We are also witnessing real progress on security and economic fronts; simply stated, violence is down.

¶17. (C) However, there are still many challenges that require a longer-term commitment. A commitment from the USG for continued assistance. A commitment from the Government of Iraq to continue to fight extremists, further the political process and enhance economic progress. And a commitment from the people of Iraq to continue to endeavor towards a stable and peaceful Iraq. These successes will not come overnight, but our continued assistance, provided for in the FY 2008 request, remains critical to help Iraq maintain its progress to date.
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